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UNCLAS HARARE 000489

SIPDIS

SENSITIVE

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ECON EINV ETRD ZI ENGR
SUBJECT: Zimbabwe May Dollarize Energy

¶1. (U) Summary: Another pillar of the GOZ's mind-withering, and failed, interventionist economic policies may crumble. Parastatal Zesa is negotiating U.S. dollar energy tariffs with selected exporters. End summary.

Differentiated Tariffs

¶2. (SBU) While recently touring Gweru and Kwekwe (Midlands), Econchief met with representatives of Sable Chemicals, Zimasco and Zimbabwe Alloys. They are the country's 3 largest energy consumers, absorb 20 percent of national output and have endured power shedding in recent months. Reps from Zimasco and Zim Alloys, both exporters, told us Zesa has just approached them about paying for energy in U.S. dollars. The GOZ's recent "National Economic Revival Program" broaches the idea of some firms paying for energy in foreign exchange. Managers of non-exporter Sable said Zesa has not pitched them similar proposals. The chemical company does not earn forex directly and could not stay in business if paying an international market price for power.

¶3. (SBU) Even as forex-earners, Zimasco and Zim Alloys told us they balked at Zesa's request that they pay US 3.8 cents per kilowatt hour. Firms in Mozambique, Botswana, Zambia and South Africa pay under US 2.0 cents. The Zimasco plant manager said such rates "would blow us right out of the water." Both miners could swallow a tariff equivalent to that in neighboring countries, a 5-fold increase over present Zimdollar-denominated rates, if Zesa guarantees them preferential service and a fair exchange rate.

Comment

¶4. (SBU) Over the long haul, energy prices that vary by 5-fold are unsustainable. Nevertheless, both Eskom of South Africa and Hydro Cabora Basa of Mozambique have threatened to cut off energy exports, a potentially devastating blow to an ailing economy heavily dependent on imported power. More importantly, it is mildly encouraging that the GOZ is finally thinking about fuel and energy in dollarized rather than self-delusive -- i.e., converted into Zimdollars at an unsupported official rate -- terms.

Sullivan